



Health, Education and Human Services Division

B-278079

November 6, 1997

The Honorable Jim Bunning
Chairman, Subcommittee on Social Security
Committee on Ways and Means
House of Representatives

Subject: The Results Act: Observations on the Railroad Retirement Board's
September 1997 Strategic Plan

Dear Mr. Chairman:

At your request, we have reviewed the Railroad Retirement Board's (RRB) September 1997 strategic plan, submitted formally to the Congress as required by the Government Performance and Results Act of 1993 (the Results Act). On September 11, 1997, we briefed your staff and RRB officials on our observations on RRB's July draft of this plan. This letter provides our observations on the formally issued plan and its changes from the draft.

OBJECTIVES, SCOPE, AND METHODOLOGY

We focused our review of RRB's formally issued strategic plan on

- RRB's compliance with the Results Act's requirements and the plan's overall quality,
- whether the plan reflects RRB's key statutory responsibilities,
- whether the plan identifies crosscutting functions and plans for coordination with other departments and agencies, and
- whether the plan addresses major RRB management challenges and its capacity to provide reliable information about its performance.

Our overall assessment of RRB's formally issued strategic plan was generally based on our knowledge of RRB's programs and financial management issues and other information available at the time of our assessment. Specifically, the

GAO/HEHS-98-13R RRB's Strategic Plan

criteria we used to determine whether RRB's strategic plan complies with the requirements of the Results Act were the Results Act itself, supplemented by the Office of Management and Budget's (OMB) guidance on developing strategic plans (OMB Circular A-11, part 2). To judge the overall quality of RRB's plan, we used our May 1997 guidance for congressional review of strategic plans.¹ To determine whether RRB's plan contains information on interagency coordination and addresses previously identified management problems, we relied on our general knowledge of RRB's programs and ongoing financial management work. To determine whether RRB has systems adequate to provide reliable information on performance, we reviewed the plan for information on the chief financial officer, the chief information officer, and financial management. We evaluated the draft plan and the formally issued plan between August 28 and October 22, 1997. We obtained RRB officials' responses to our preliminary findings on their draft plan during our September briefing. In addition, RRB officials commented on a draft of this correspondence, as reflected in this letter's agency comments section.

Under the Results Act, agencies' plans were due to the Congress and OMB on September 30, 1997. Developing a strategic plan is a dynamic process, and RRB revised its draft with input from congressional staff, GAO, OMB, and other stakeholders. Furthermore, in passing the Results Act, the Congress anticipated that several planning cycles might be needed to perfect the development of a strategic plan and that the plan would be continually refined. The following comments reflect our analysis of RRB's September 1997 plan.

BACKGROUND

Established in 1934 by the Railroad Retirement Act, RRB administers two benefit programs for the nation's railroad workers and their families under that act and the Railroad Unemployment Insurance Act. In one program, RRB provides retirement and survivor benefits to individuals who have completed at least 10 years of railroad service. In the other, RRB provides unemployment insurance benefits to unemployed railroad workers and sickness benefits to workers who are unable to work because of illness or injury. In fiscal year 1996, RRB paid \$8.1 billion in retirement and survivors benefits to nearly 818,000 beneficiaries and \$66 million in unemployment and sickness benefits to 36,000 claimants. RRB provides services to railroad employees through its

¹Agencies' Strategic Plans Under GPRA: Key Questions to Facilitate Congressional Review (GAO/GGD-10.1.16, May 1997).

network of more than 50 district offices, and it provides information on its services in a variety of ways, including through its website on the Internet.

RRB is an independent federal agency within the executive branch headed by three board members appointed by the president. One member is appointed upon the recommendation of railroad employers, one is appointed on the recommendation of railroad labor organizations, and the third, who is the chairman, is appointed to represent the public interest.

In 1994, OMB selected the Bureau of Survivor Benefits, a component agency of RRB, to be a pilot organization for the implementation of the Results Act's performance and reporting provision. The purpose of the pilot program was to help federal agencies gain experience in using the key provisions of the act and to provide lessons learned before the act's governmentwide implementation.

RESULTS IN BRIEF

RRB has formally issued a plan that describes its programs, contains all six elements required by the Results Act, and reflects the agency's key statutory responsibilities. Also, this plan is clearer and more specific than the draft in several key areas. For example, in our September briefing, we stated that the draft would be more realistic and useful to RRB, the Congress, and other stakeholders if RRB (1) more explicitly described how certain external factors, such as the decline in railroad employment or technology changes, may affect goal achievement; (2) more clearly explained how it has used and plans to use program evaluations; (3) discussed how RRB has coordinated and consulted with other agencies, such as the Social Security Administration (SSA), that may serve the same beneficiaries; and (4) clarified its objectives to help stakeholders understand how RRB will measure goal achievement. RRB has addressed most of these issues by including in the plan a matrix of external factors and their potential effect, adding a table of its planned program evaluation activities and an implementation schedule, and discussing its relationship with other agencies and noting that it had provided its plan to a number of agencies for comment. However, RRB's objectives in its formally issued plan continue to be unclear, making it difficult to determine how RRB will assess whether they are being achieved.

Independent auditors have identified serious problems with RRB's financial management systems, pointing to material weaknesses in the agency's internal controls and issuing a disclaimer of opinion on RRB's financial statements since 1993. These weaknesses were not disclosed in the draft. By discussing the agency's financial management problems, RRB has significantly improved its

formally issued plan, thus making it more realistic than the draft. However, the plan still does not fully disclose serious and fundamental problems identified in recent audits, such as inadequate controls over benefit payments and the lack of auditable financial statements. Resolving these problems will be critical to the agency's achieving its goals.

THE STRATEGIC PLAN REFLECTS ALL THE RESULTS ACT'S REQUIRED ELEMENTS

RRB's formally issued plan includes all six elements required by the act: (1) a comprehensive mission statement, (2) general goals and objectives, (3) approaches to achieve goals and objectives, (4) an explanation of the relationship between general goals and objectives and annual performance goals, (5) key external factors beyond the agency's control, and (6) an explanation of how program evaluations were used in drafting the general goals and plans for future evaluations. RRB's September 1997 plan discusses each element with greater detail and clarity than the July 1997 draft plan.

Comprehensive Mission Statement

According to OMB Circular A-11, the mission statement should be brief, defining the basic purpose of the agency and focusing particularly on its core programs and activities. RRB's plan contains this mission statement:

"To administer retirement/survivor and unemployment/sickness insurance benefit programs for railroad workers and their families under the Railroad Retirement Act and the Railroad Unemployment Insurance Act. These programs provide income protection during old age and in the event of disability, death or temporary unemployment or sickness. The RRB also administers aspects of the Medicare program and has administrative responsibilities under the Social Security Act and the Internal Revenue Code.

"In carrying out its mission, the RRB will pay benefits to the right people, in the right amounts, in a timely manner, and safeguard our customers' trust funds. The RRB will treat every person who comes into contact with the agency with courtesy and concern, and respond to all inquiries promptly, accurately and clearly."

We found RRB's mission statement to be results oriented and better than its draft mission statement in its draft plan. While the draft statement focused on the agency's administrative responsibilities, RRB strengthened this by referring

to the broad public need its programs fulfill—that of promoting the financial security of railroad workers.

General Goals and Objectives

OMB Circular A-11 specifies that strategic plans are to set forth long-term management goals as well as programmatic and policy goals. General goals and objectives should be stated in a manner that allows future assessment of whether the goals are being achieved.

RRB's plan expresses the following four goals:

1. we will provide excellent customer service,
2. we will safeguard our customers' trust funds through prudent stewardship,
3. we will align resources to effectively and efficiently meet our mission, and
4. we will expand our use of technology and automation to achieve our mission.

Each goal has several objectives. The goals are based on the premise that RRB's two programs rely on common services and business processes and, thus, that the goals appropriately represent agencywide priorities rather than program-specific concerns. Goals 1 and 2 focus on the business of the agency, while goals 3 and 4 appear to be a means of achieving goals rather than strategic goals themselves. The strategic plan states that goals 3 and 4 are critical to the agency's near-term success because they address some of the agency's management challenges, but it also notes that they will most likely be subsumed into the two other goals as they are achieved.

Overall, as in the draft plan, some of the objectives under each goal seem unclear, making it difficult to determine how RRB will be able to measure whether they are being achieved. For example, the strategic objective "we will ensure an efficient and effective reporting system for railroad employers" is not specific enough that stakeholders will understand how the agency will measure its achievement. The objectives in the formally issued plan remain unchanged from the draft and should be expressed more clearly in future plans in order to satisfy Circular A-11 guidance.

How the Goals and Objectives Will Be Achieved

According to OMB Circular A-11, this element describes the strategies the agency will use to achieve its general goals and objectives. The formally issued plan improves on the draft by discussing how RRB will achieve each goal.

Unlike the draft, the formally issued plan discusses certain operational processes, staff skills, technologies, and human capital needed to achieve RRB's goals. Under its objective "we will ensure the integrity of benefit programs through comprehensive and integrated monitoring and prevention programs," for example, RRB briefly explains the programs and discusses the resources spent to achieve the objective. The formally issued plan's examples of the variety of processes being used or planned give stakeholders a better understanding of how RRB will achieve its goals. In the future, RRB may want to consider adding further examples or clarifying discussion, especially in the area of human capital and staff skills.

In addition, Circular A-11 states that strategic plans should outline the process for communicating the goals and objectives throughout the agency and for assigning accountability to managers and staff for the achievement of objectives. While the draft plan did not explain how RRB's goals and objectives will be communicated throughout the agency, the formally issued plan provides discussion on this important strategy. In addition, the draft plan did not explicitly discuss how managers will be held accountable for meeting the agency's goals and objectives. The formally issued plan adds a specific initiative for fiscal year 1998 that links managers' and supervisors' individual performance appraisal plans with the achievement of agency goals and objectives.

How Annual Performance Goals and Measures Relate to General Goals

According to OMB Circular A-11, strategic plans should briefly outline (1) the type, nature, and scope of the performance goals to be included in an agency's performance plan; (2) the relationship between performance goals and general goals and objectives; and (3) the relevance and use of performance goals in helping determine the achievement of general goals and objectives.

Earlier, we observed that the draft plan discussed performance goals and that it appeared that RRB had considered how they will be measured. However, in our briefings, but we stated that more detail that includes the items required by the Circular would improve the plan and help stakeholders understand how

RRB will determine progress toward goal achievement. The formally issued plan adds a matrix that links RRB's performance goals and measures with its strategic goals. In addition, we stated that it would be helpful for the strategic plan to either provide a brief description of the other plans or provide examples to help stakeholders make the linkage. The formally issued plan now describes RRB's other plans and programs, enabling stakeholders to better understand the links between them and RRB's strategic plan.

Key External Factors

OMB Circular A-11 notes that agencies' achievement of their goals and objectives can be affected by change in economic, demographic, social, or environmental factors and that strategic plans should describe each possible factor, link it to particular goals, and describe how it could affect their achievement.

RRB's draft included an extensive list of key factors that could affect its programs, such as a sudden decline in railroad employment levels or changes in the agency's status as an independent agency. However, the draft did not incorporate these factors into its discussion on general goals and objectives, nor did it discuss how these factors might affect goal achievement. RRB strengthened the draft by illustrating in the formally issued plan a matrix of the external factors, strategic goals affected, the likelihood of each factor's occurring, how goals might be affected, and how RRB is planning to address such external factors.

Program Evaluation

OMB Circular A-11 states that an agency should describe the program evaluations that it used in preparing the strategic plan and include a schedule for future program evaluations. In its draft plan, RRB discussed techniques, such as surveys and focus groups, that it uses to determine such things as customer satisfaction, but it did not describe how it used program evaluations to establish or revise its strategic goals, nor did it provide a schedule for future program evaluations.

RRB's formally issued plan adds a matrix of future studies and program evaluations, their methodology and scope, the time periods, and the issues the evaluations would address. This matrix helps RRB and its stakeholders understand RRB's plans for studies and evaluations and how it will assess its goal achievement.

THE STRATEGIC PLAN REFLECTS
KEY STATUTORY RESPONSIBILITIES

As in the draft plan, RRB's formally issued plan generally reflects its key statutory responsibilities under the Railroad Retirement Act and the Railroad Unemployment Insurance Act, as amended. The plan also states that the agency is responsible for making certain payments under the provisions of the Social Security Act and that it assists the Health Care Financing Administration (HCFA) in providing Medicare coverage for its retirees. It also acknowledges that RRB has certain administrative responsibilities under the Internal Revenue Code.

THE STRATEGIC PLAN DISCUSSES
CROSSCUTTING ACTIVITIES AND
STAKEHOLDER INVOLVEMENT

Strategic plans should describe the extent to which agencies rely on the resources or activities of other agencies to achieve their goals and objectives and should discuss consultations they have with them. Circular A-11 states that agencies should ensure appropriate and timely consultation with other agencies during the development of strategic plans that have crosscutting goals and objectives.

We observed that the RRB draft plan discussed relationships with other agencies, including HCFA and SSA, but was silent on whether the plan had been coordinated with these agencies or whether consultations had taken place. As a result, we were unable to determine whether RRB had coordinated with these other agencies or assessed potential overlap. In its formally issued plan, RRB improved its discussion by providing additional information about the federal agencies with which it frequently interacts. RRB added that it had sent its plan to these federal agencies for their review and comment.

THE STRATEGIC PLAN DOES NOT ENSURE
THAT MAJOR MANAGEMENT CHALLENGES
WILL BE ADDRESSED

Circular A-11 states that strategic plans required by the Results Act provide the framework for implementing the act and are key in the effort to improve the performance of government programs and operations. In its draft plan, RRB did not disclose its financial management problems, nor did it clarify the efforts it had made to resolve them. Its formally issued plan raises these fundamental problems but would be improved if it fully disclosed them and discussed how it

plans to correct them. Without this information, it is unclear how the agency can fully achieve its mission.

Financial Reporting

Independent auditors that RRB hired have identified several problems with RRB's financial management systems. They found material weaknesses in the agency's system of internal controls and were essentially unable to determine whether major items in RRB's statements are accurate. The auditors issued a disclaimer of opinion on RRB's financial statements, which means that they could not render an opinion on the statements' accuracy.

More specifically, the independent auditors found three material weaknesses in RRB's internal controls in fiscal years 1995 and 1996, the 2 years we reviewed. These three weaknesses relate to (1) the accuracy of benefit payments, (2) the accuracy of railroad retirement tax deposits, and (3) RRB's overall control environment. A poor control environment is not conducive to a strong system of internal controls.

RRB's internal control problems are so severe that the independent auditors concluded that the agency was not in compliance with part of its enabling legislation. These auditors found incidents in fiscal years 1995 and 1996 of RRB's having failed to accurately calculate benefit payments; these incidents led them to conclude that RRB had not complied with the Railroad Retirement Act, as amended. Therefore, the accuracy and reliability of the agency's systems for performance reporting purposes are not certain.

We observed that RRB's draft plan did not explicitly identify and address these long-standing financial management problems. Its formally issued plan identifies the specific material weaknesses but still does not disclose their full extent. For example, the plan's discussion on problems with the accuracy of benefit payments focuses on problems identified in a 1993 audit that related to past benefit payments, giving the impression that this problem has been resolved. However, the most recent audit concluded that RRB's controls over benefit payments were unable to identify and correct errors in a timely manner. Also, neither RRB's draft plan nor its formally issued plan addresses RRB's inability to issue auditable financial statements. While RRB's formally issued plan is better and more realistic because of its expanded discussion of the agency's financial management problems, the plan would have been even more helpful if it had fully disclosed these fundamental problems and how it plans to correct them.

Technology-Related Changes to Be Considered

Recent legislation, designed to reform information technology management, including the Paperwork Reduction Act of 1995 and the Clinger-Cohen Act of 1996, sets forth requirements that promote more efficient and effective use of information technology in support of agencies' missions and program performance. Under these information technology reform laws, agencies are to (1) tighten controls over technology spending, (2) better link their technology plans and use of information technology to their programs' missions and goals, and (3) establish performance measures of how well their information technology supports their program efforts. RRB's draft plan and formally issued plan demonstrate and discuss its awareness of these principles.

We have identified as high in risk two technology-related areas that represent challenges for all federal agencies, including RRB. The first, the "year 2000 problem," stems from the common practice in automated systems of abbreviating years by their last two digits. Thus, miscalculations in all kinds of activities—such as benefit payments—could occur at the turn of the century if computer systems interpret 00 as 1900 instead of the year 2000. Unless RRB converts its software before the new century, it could encounter major service disruptions, including erroneous payments or failure to process benefits. The RRB draft plan dedicated an objective to this issue and provided details on RRB's plans for having its systems ready for the year 2000. The formally issued plan includes the same objective.

The second high-risk area relates to information security, or the need to adequately protect the sensitive data in federal computer systems. The RRB strategic plan did not discuss information security. During our September briefing, we stated that a discussion on this topic would be helpful because the agency deals with beneficiaries' personal information and is considering providing information to beneficiaries over the Internet. In its formally issued plan, RRB raises the issue of information security and privacy in a number of areas but does not fully discuss any future plans for safeguarding information.

AGENCY COMMENTS

We provided RRB with a draft of our observations on its strategic plan. RRB officials noted in their written reply that they made many changes to their plan based on our comments during our September briefing. These officials also stated that when they next update their strategic plan, they will again review our comments to determine whether further changes should be made at that time.

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We are sending copies of this letter to the board members of RRB and others who are interested. Copies also will be available to others on request.

If you or your staff have any questions concerning this letter, please call me or my Assistant Director, Kay Brown, at (202) 512-7215. Other contributors to this letter were Valerie A. Rogers, George H. Bogart, Valerie C. Melvin, Lenny R. Moore, and Roger R. Stoltz.

Sincerely yours,



Barbara D. Bovbjerg,
Associate Director, Income Security Issues

Enclosure

COMMENTS FROM THE RAILROAD RETIREMENT BOARD



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Ms. Barbara D. Bovbjerg
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Dear Ms. Bovbjerg:

Thank you for the opportunity to comment on the U.S. General Accounting Office (GAO) draft report, "The Results Act: Observations on the Railroad Retirement Board's September 1997 Strategic Plan" (GAO/HEHS-98-13R), which you provided to us on October 30, 1997. We also appreciate the opportunity you gave us to discuss GAO's initial observations on our draft strategic plan during the September 11, 1997, videoconference. As your report recognizes, we made many changes to our final strategic plan based on that discussion.

As you noted in your draft report, in passing the Government Performance and Results Act, the Congress anticipated that several planning cycles might be needed to perfect the process of developing a strategic plan and that the plan would be continually refined. When we next update our strategic plan, we will again review your comments to determine whether further changes should be made at that time.

Sincerely,

FOR THE BOARD
Beatrice Ezerski
Secretary to the Board

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